

PROPOSED RESOLUTION

Resolution W-5008
DWA/RSK/JB5/MZ3/jp4

Agenda ID #13301 (Rev. 3)
Item #3

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS
Water and Sewer Advisory Branch

RESOLUTION W-5008
November 20, 2014

RESOLUTION

(RES. W-5008) THIS RESOLUTION REJECTS DIVISION OF WATER AND AUDITS MINISTERIAL DISPOSITION OF CALIFORNIA-AMERICAN WATER COMPANY'S ADVICE LETTER NO. 1031-W REQUEST FOR THE 2014 STEP INCREASE FOR THE SACRAMENTO DISTRICT.

By Advice Letter No. 1031-W filed on December 10, 2013.

SUMMARY

California-American Water Company (Cal-Am) requests Commission review of the disposition by the Division of Water and Audits (DWA) rejecting Advice Letter (AL) 1031-W. AL 1031-W requests implementation of the 2014 step increase for the Sacramento District. The advice letter requests an increase of \$1,109,077 or 2.13% over the prior authorized revenue.

This resolution rejects DWA's disposition of Cal-Am's AL 1031-W and orders Cal-Am to file a supplement to remove the Business Transformation costs and savings. AL 1031-WA shall request an increase of \$975,343 or 1.87% over the 2013 authorized revenue granted in AL 975-WA.

BACKGROUND

On December 10, 2013, through AL 1031-W, a Tier 2 advice letter, Cal-Am requests an increase in revenue for the 2014 escalation year in the amount of \$975,343 with an additional \$133,734 for net Business Transformation costs and savings for a total increase of \$1,109,077 or 2.13% over the prior authorized revenue.

On April 11, 2014, DWA received a revised set of work papers that removed the Business Transformation costs and savings and made other minor adjustments. DWA

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and Cal-Am disagreed on the number of unmetered customers for the pro forma period. The calculation of the pro forma number of customers determines the pro forma revenue and, ultimately, any reduction that is made to the escalation request to recover the forecasted expenses. Cal-Am and DWA met on June 6, 2014 to resolve the outstanding issues in AL 1031-W.

In that meeting, Cal-Am representatives informed DWA that errors existed in its customer counts and that AL 1031-W adjusted the number of customers to account for these errors. Cal-Am provided the monthly number of unmetered customers recorded during the pro forma period to support its value reported in the advice letter. However, the data provided by the company does not support the data in AL 1031-W. Cal-Am has not provided documentation to support the calculation of the pro forma number of customers in AL 1031-W.

Material factual issues with AL 1031-W remained after that meeting. DWA issued its disposition rejecting the advice letter on August 11, 2014 and requested Cal-Am to change its pro forma number of unmetered customers. Cal-Am appealed DWA's disposition on August 21, 2014 and requested Commission review.

NOTICE

Notice of AL 1031-W was delivered to the advice letter distribution list of the Sacramento District and other parties of interest in accordance with General Order (G.O.) 96-B Water Industry Rule 4.1. Cal-Am posted AL 1031-W on its website per G.O. 96-B Water Industry Rule 3.3.

PROTESTS

No protests were filed against AL 1031-W.

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DISCUSSION

As filed, AL 1031-W shows its pro forma number of customers to be 57,073 metered and 543 unmetered.¹ These values should be calculated as the average of the number of customers recorded at the end of each month during the pro forma period from October 2012 to September 2013.² Cal-Am provided the following monthly data to support its pro forma number of unmetered customers:

| Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 15,246 | 2,483 | 1,087 | 1,087 | 1,087 | 1,087 | 1,087 | 1,087 | 1,087 | 1,087 | 1,087 | 0 |

The average of this data is 2,293 unmetered customers for the pro forma period which differs from the 543 customers reported in AL 1031-W.

DWA attempted to verify the recorded information in AL 1031-W by comparing it to the company's 2012 Annual Report of Operations filed on May 31, 2013. In that report, Schedule D-4 showed the number of customers to be 1,080 unmetered and 56,403 metered as of December 31, 2012. The number of customers as of the end of 2011 was reported to be 14,889 unmetered and 42,084 metered. The annual reports contain end-of-year data.

Similar end-of-year data was reported in Cal-Am's Table 3-1 of Chapter 3 of its 100-day update to its General Rate Case (GRC) application filed on October 9, 2013.³ The data show 7,982 unmetered and 49,836 metered customers at the end of 2012. At the end of 2011, the data show 15,277 unmetered and 42,654 metered customers. In addition, Cal-Am indicated that it had converted all its unmetered customers to metered customers by the end of 2013 which is consistent with the company's estimate in its GRC.

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1. All customer counts exclude fire service customers.
 2. Standard Practice U-34-W, Section 7
 3. See Table 3.1 of A.13-07-002 for the Sacramento District titled, "Customers At Year End, Recorded."

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Noting that the data reported in the 2012 Annual Report and the GRC application did not match, DWA requested Cal-Am to either explain the discrepancy or correct the data so that the information reported in the two documents could be verified. Cal-Am explained that the end-of-year data in the GRC was more accurate and subsequently corrected their 2012 Annual Report to remove the inconsistency.

DWA relied on the end-of-year data contained in the *revised* 2012 Annual Report and the company's estimate of the number of unmetered customers as of the end of 2013 to support its disposition rejecting AL 1031-W. Since Cal-Am could not support its value of the pro forma numbers of monthly unmetered customers, DWA derived an estimate based on the reported end-of-year data: 15,277 in 2011; 7,982 in 2012; and 0 in 2013. Using these figures, DWA assumed an average conversion rate of 608 unmetered customers per month in 2012⁴ and 665 unmetered customers per month in 2013.⁵ DWA provided the following monthly data to support its pro forma number of unmetered customers:

| Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 9,198 | 8,590 | 7,982 | 7,317 | 6,652 | 5,987 | 5,321 | 4,656 | 3,991 | 3,326 | 2,661 | 1,996 |

DWA calculated the average of this data to determine the pro forma number of unmetered customers to be 5,640. Cal-Am appealed this disposition stating that the revised 2012 Annual Report data, and thus DWA's disposition, is flawed.

We find it reasonable for data to be consistent between documents submitted to the Commission, particularly if the documents are submitted in compliance with the Commission's Revised Rate Case Plan (D. 07-05-062) Minimum Data Requirements Section II.A.1 or the reporting requirements for Schedule D-4 of the annual reports. Given that Table 3.1 of Cal-Am's GRC application shows the recorded customers at year-end for 2012 and the 2012 Annual Report shows the recorded customers at year-end for 2012, the data between the two documents should be equivalent.

4. $(15,277 - 7,982)/12 = 608$ unmetered customers per month

5. $(7,982 - 0)/12 = 665$ unmetered customers per month

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Cal-Am's argument that DWA incorrectly used an average customer count for 2012 is incorrect. As discussed above, DWA relied on end-of-year data submitted in Table 3.1 of Cal-Am's GRC and made no attempt to calculate an average between end-of-year 2011 and 2012 values. We find that DWA's approach to calculate an average unmetered customer count for the pro forma period is reasonable in the absence of monthly documented figures from Cal-Am.

DWA did not find an issue with Cal-Am's pro forma number of metered customers in AL 1031-W. Cal-Am reported a value of 57,073 metered customers for the pro forma period. The GRC reported 49,836 metered customers as of the end of 2012 and 42,654 metered customers as of the end of 2011. According to this data, the company added 7,182 metered customers during 2012 either by converting unmetered customers or through growth of its existing metered customers. Cal-Am followed a similar rate if it converted its remaining 7,982 unmetered customers in 2013, thus bringing the estimated annual total of metered customers to 57,818 at year-end for 2013, excluding any growth of the number of existing metered customers. In light of this data, DWA considered Cal-Am's reported value of 57,073 to be a reasonable number of customers for the pro forma period.

After reviewing comments submitted in response to Proposed Comment Resolution (Res.) W-5008, the Commission finds that the pro forma number of customers presented by Cal-Am in AL 1031-W is reasonable despite the inconsistencies between the data in AL 1031-W and that contained in the *revised* 2012 Annual Report and the 2013 GRC.

CONCLUSIONS

The Commission resolves Cal-Am's appeal of DWA's disposition of AL 1031-W by rejecting the disposition. Cal-Am is to file a supplement to AL 1031-W removing the Business Transformation costs and implementing an increase of \$975,343 or 1.87% over the prior authorized revenue.

COMPLIANCE

There are no outstanding Commission orders for compliance in Cal-Am's Sacramento District.

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COMMENTS

DWA served Proposed Comment Res. W-5008 on Cal-Am on September 12, 2014. Cal-Am provided comments on October 6, 2014. Cal-Am noted that DWA's customer counts were flawed and argued that DWA failed to lower the number of metered customers to account for an increase in the number of unmetered customers from DWA's calculations. DWA requested monthly pro forma data from the company to correct this error and received it on October 15, 2014. The data shows 1,087 unmetered and 56,295 metered customers at the end of 2012. The data confirms the number of customers presented in AL 1031-W but fails to support the number of customers presented in the *revised* 2012 Annual Report or the 2013 GRC. Cal-Am requests approval of AL 1031-W despite these inconsistencies.

FINDINGS

1. Cal-Am filed AL 1031-W on December 10, 2013 to increase its authorized revenue requirement by \$975,343 to cover escalated expenses forecasted for 2014 and \$133,734 to cover net Business Transformation costs and savings.
2. Cal-Am agreed to remove the net Business Transformation costs and savings from the advice letter.
3. DWA disputed the pro forma number of unmetered customers based on data submitted by Cal-Am in its revised 2012 Annual Report of Operations.
4. The end-of-year data in the revised 2012 Annual Report of Operations is consistent with the end-of-year data submitted on October 9, 2013 by Cal-Am in Table 3-1 of Chapter 3 of its 100-day update to its GRC application entitled, "Customers At Year End, Recorded."
5. Cal-Am provided monthly data which supports its value of 543 pro forma unmetered customers calculated in AL 1031-W.
6. DWA calculated 5,640 pro forma unmetered customers assuming a constant rate of conversion of unmetered customers for 2012 and 2013.
7. Cal-Am's reported value of 57,073 pro forma metered customers is reasonable considering the number of unmetered customers estimated to be converted during the pro forma period.

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THEREFORE IT IS ORDERED THAT:

1. The Division of Water and Audit's (DWA) ministerial disposition of California-American Water Company's (Cal-Am) Advice Letter (AL) 1031-W is rejected.
2. Within ten days of the effective date of this Resolution, Cal-Am shall file a new Tier 1 advice letter to remove the Business Transformation costs and implement a step increase of \$975,343 over the prior authorized revenue. The advice letter will be effective upon filing.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on November 20, 2014; the following Commissioners voting favorably:

PAUL CLANON
Executive Director

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CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5008 on all parties in these filings or their attorneys as shown on the attached lists.

Dated September 12, 2014, at San Francisco, California.

/s/ JENNIFER PEREZ

Jennifer Perez

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

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CALIFORNIA AMERICAN WATER COMPANY ADVICE LETTER NO. 1031-W SERVICE LIST

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